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Regulatory Update: all that you ever wanted to know about professional regulation …

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Agenda

- Some key things you need to know about:
  - Regulatory Framework – including Quality Assurance Scheme
  - New Technical Actuarial Standards
  - New requirements for applying standards (APS X1)
  - APS X2 – 1 year on
  - Changes to Practising Certificates for specific roles (including Chief Actuary)
  - New Risk Alerts including GI reserving
- Tenuous links to a famous Irish alcoholic beverage

Scene setting…

IFoA

FRC

PRA

FCA

tPR

Govt (UK & others)

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The classic …

IFoA

Ethical Standards (APSs)
Technical Standards (non UK)

Education and examinations
CPD
Practising certificates
Member support

Disciplinary Scheme

FRC (UK)

Generic TASs
Specific TASs

Professional oversight

Public interest disciplinary cases

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"We will regulate our members in such a way as to assure public trust and support business and innovation".

- Actuaries' Code
- Actuarial Profession Standards
  - APS X1
  - APS X2
  - APS G1
- CPD Scheme
- Guidance – e.g. Conflicts of interest
- Quality Assurance Scheme

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Technical Actuarial Standards (TASs)

- TASs-
- Set by the Financial Reporting Council
- UK only
- Current framework – only apply to certain types of work
- Review of the framework – consultations
- Proposed new TAS 100 and revised TASs for insurance, pensions and funeral plans

- So, why do you need to know about them…?

Apply to Reserved Work and areas of actuarial work specified in the Specific TASs

Apply to areas of actuarial work specified in the Specific TASs

Scope & Authority

TAS D | **TAS M** | **TAS R**

Specific TASs
(Pensions, Insurance, Funeral Plans, Transformations)

<u>Other material</u>
Answers to FAQs
Significant Considerations

Framework for FRC Actuarial Standards

Applies to **all** technical actuarial work

TAS 100

Apply to areas of technical actuarial work specified in the Specific TASs

TAS 200, 300, 400.
(Pensions, Insurance, Funeral Plans)

Other material
TAS 100 Guidance (IFoA)
Case Studies (IFoA)

Why you need to know about them…

- “Framework” replaces ‘Scope and Authority’
- Reliability Objective – Users for whom a piece of actuarial information was created should be able to place a high degree of reliance on the information’s relevance, transparency of assumptions, completeness and comprehensibility, including the communication of any uncertainty inherent in the information.

TAS 100

- Definition of 'Technical Actuarial Work'

" *work performed for a **user**:*

(1) where the use of principles and/or techniques of actuarial science is central to the work and which involves the exercise of judgement; or

*(2) which the **user** may reasonably regard as **technical actuarial work** by virtue of the manner of its presentation."*

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TAS 100

- Principles:
  - Judgement
  - Data
  - Assumptions
  - Models
  - Communications
  - Documentation
- Guidance and case studies to be produced by the IFoA

Summary Scope of TAS 200 compared with current Insurance TAS

Retained	New – scope clarified	Removed
• Regulatory balance sheets and financial statements • Risk modelling for regulatory capital and ORSA • Insurance Transformations • Audit and Assurance • Pricing frameworks • Lloyd's syndicates • With-profits discretion • General Insurance tax	• ORSA risk modelling • Extension of audit support	• Embedded values • Pricing of individual contracts of significant risk to the insurer • M&A work • Commutations • Lloyd's reinsurance to close • Reviewable rate contracts

Note : All work now subject to TAS 100

Timescale

May 2016
TAS Framework Feedback and Specific TAS consultation

Winter 2016
Publish revised TASs and Framework

Summer 2017
New TASs come into force

2020?
Post-implementation review

The foreign import…

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What to do if you are carrying out non-UK work

- Practical issues you might face
  - Language barriers
  - Cultural differences
  - Complex international corporate structures
  - Competing standards
- May wonder if you are required to apply UK standards and what is meant by ‘UK geographic scope’
- May wonder if you can choose to apply them or to agree which standards to apply with the user
- May wonder where international standards fit in to all of this

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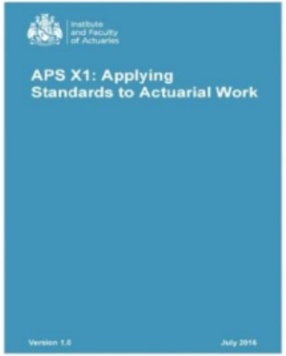
New standard on applying standards

- New Actuarial Profession Standard -APS X1
- Final version being refined – expected publication later this year
- Due to come into force at same time as new TASs (estimated 1 July 2017) but early adoption will be encouraged
- Detailed guide (with case studies)
- Replaces the non-mandatory Standards Decision Tree
- Aims to set out:
  - How IFoA standards, international standards and the FRC's technical standards apply to IFoA members;
  - How members carrying out work overseas should determine which standards to apply



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The provisions – starting point

- Starting point (subject to final approval):
  - All members must comply with the Actuaries' Code and relevant APSs
  - If the work is within 'UK Geographic Scope' (as defined by the FRC) then members must apply the TAS framework
  - Where a member is carrying out work in a place where there is a 'Relevant Authority' that sets their own standards then there is a presumption they will be applied
  - A member might apply those standards as an alternative to APSs if they have equivalent requirements
  - Or those carrying out non-UK work, must exercise reasonable judgement to consider whether there are other relevant standards that ought to be applied

The provisions – general principle

- General principle introduced:
  - All Members must meet the same minimum requirement of applying a set of standards that are substantially consistent with IAA model standard ISAP 1
  - Can meet this requirement in a range of ways
  - Various ways in which ‘presumed’ to be meeting that requirement (including applying the IFoA standards plus FRC’s TAS 100)
- Practical help in the form of different case studies


GUINNESS
DRAUGHT
MURPHY'S
STOUT

APS X2: Review of Actuarial Work

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APS X2: Review of Actuarial Work

Author:	The Regulation Board
Status:	Approved under the Standards Approval Process
Version:	1.0 effective from 1 July 2015
To be reviewed:	No later than 1 July 2018
Purpose:	To set out the responsibilities of **all Members** in relation to the application of **Work Review**, which may include **Independent Peer Review**, to promote the quality of **Actuarial Work**.
Authority:	Institute and Faculty of Actuaries
Target Audience:	**Members** in all practice areas. This **APS** may also be helpful to employers of actuaries.

General Professional Obligations:

All Members are reminded of the Status and Purpose preamble to the **Actuaries' Code**, which states that the Code will be taken into account if a Member's conduct is called into question for the purposes of the Institute and Faculty of Actuaries' Disciplinary Scheme. Rule 1.6 of the Disciplinary Scheme states that misconduct:

"means any conduct by a Member in the course of carrying out professional duties or otherwise, constituting failure by that Member to comply with the standards of behaviour, integrity or professional judgement which other Members or the public might reasonably expect of a Member, having regard to any code, standards, advice, guidance, memorandum or statement on professional conduct, practice or duties which may be given and published by the Institute and Faculty of Actuaries and/or by the [Financial Reporting Council] (including by the former Board for Actuarial Standards)".

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Key Features

- In force since 1 July 2015
- Shorter than previous standards
- Principles based not rules based
- Cross practice standard
- No geographic restrictions
- Applies to all categories of members
- Guidance

The Requirements

- Requirement to **consider** applying Work Review to **Actuarial Work** for which a Member is responsible
- Requirement to consider, in particular, whether Work Review should take the form of **Independent Peer Review**
- Presumption that the Member **should**, to the extent **appropriate and proportionate**, ensure that Work Review is applied

Requirements broken down…

- Actuarial Work

  "Work undertaken by a Member in their capacity as a person with actuarial skills on which the intended recipient of that work is entitled to rely.

  This may include carrying out calculations, modelling or the rending of advice, recommendations, findings or opinions"

  - Broad definition
  - May include unpaid work, academic work, volunteering work
  - Falling within definition doesn't necessarily equate to a review process being applied… requires 'consideration' of it and may trigger presumption

Commonly asked questions

- Extent of definition of Actuarial Work
- APS X2 and review of 'review' work
- Scope for agreeing non-compliance with client
- Review by a non-actuary
- Review by a non PC holder
- Application to a junior actuary acting under supervision
- Requirements to record whether review has been applied

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Case Study: Work Review

- Bob is a student actuary (and IFoA Member) in a general insurance office. He is asked by the Chief Actuary to carry out calculations for inclusion in a report to the Board.
- What are the implications of APS X2 for Bob?
- Possible questions to ask:
  - Does this involve 'Actuarial Work'?
  - Is Bob responsible for it?
  - What does APS X2 require if he is responsible for a piece of Actuarial Work?
  - Would Work Review be 'appropriate and proportionate'? If so, in what form? By whom?
  - What factors might be relevant to the decision?
  - What about Independent Peer Review?
  - What about any recording of or communication about decisions?

Black velvet cocktail

*Pour the **Guinness** Extra Stout into a clean/polished champagne flute.*

Top up the glass with the champagne, being careful to ensure there is no overspill.

Brief history of GI Actuaries…..

- Mid-90s start to get a foothold in market
- More formality introduced with some GI Practising Certificates
- Also significant change in expectations and responsibilities
- Trend continues in 2016 with SII and new formal **Actuarial Functions**

How does the Profession view formal roles?

- Any statutory or regulatory role brings additional public interest……..remember these roles are there for a reason
- Historically this has been:
  - Pension Scheme Actuaries
  - Life Appointed Actuaries
  - Lloyd's SAO actuaries
- But now includes…………..**Chief Actuaries***

* those fulfilling the SIMF20 role under the new SIMR

The Practising Certificate Regime

Why?

- To ensure the protection of the public interest by establishing a suitably proportionate, risk focussed and targeted regulatory framework
- To give ***users*** confidence in the advice they receive
- To allow members to demonstrate their capability and suitability

The Practising Certificate Regime

Actuarial Profession Standard APS G1

- Members who are Chief Actuaries must hold either a Chief Actuary (non-life without Lloyd's) Practising Certificate or, for a Chief Actuary within the Society of Lloyd's or a Lloyd's managing agent, a Chief Actuary (non-life with Lloyd's) Practising Certificate.
- When accepting appointments as Chief Actuaries, Members must ensure that they have the right to present a report to the Firm's Governing Body in person, although they may choose not to exercise this right on a case by case basis.
- Chief Actuaries who are Members must ensure, both at the time of the appointment and thereafter, that they have sufficient resources and access to information to fulfil the requirements of their role, including conducting such investigations as may be necessary.

So how does this work in Practice?

- Practising Certificate Committee
  - meets twice a year
  - is a sub-committee of the Regulation Board
- Individual panels for each certificate
  - including a new “Chief Actuary non-life panel”
  - in “constant” communication
- Do have discretion…and use it
- And there is an appeals process

The whole Practising Certificate Regime is under review…..

Terms of Reference include consideration of:-

- Purpose of the PC regime
- Classification of Certificates
- Criteria
- Process
- Attestations

Watch this space!!!

Baby Guinness shot!

The ratio of coffee liqueur to Irish Cream varies but is generally around 3-1. The resulting drink looks like a miniature pint of Guinness stout, with the coffee liqueur as the beer and the Irish cream as the head. It is normally served in a shot glass.

Risks

What are the risk to the public interest which arise from actuarial activity?

Risk Outlook

- Background
- Joint Forum on Actuarial Regulation (JFAR) Risk Perspective project
- Regulation Board initiative
- Risk Outlook working party

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Risk Alert
GI Reserving
Key Message

Fluctuating market conditions, not just linked with the risks of Brexit, but also the underlying trends of over-capacity and pricing pressures, increase the risk that reserves are understated.

General Insurance reserving actuaries should be aware of the cyclical nature of market conditions, the current position within this cycle and the need to take this into account when advising those making decisions on reserves.

Considerations for Actuaries

- Consider the impact of the cyclical nature of the insurance market. Actuaries should reflect on the consequences of under-reserving as experienced in the 1990s.
- Communicate the impact of the insurance cycle to Boards. Actuaries should also consider the understanding of these issues by Board members.
- Do not allow reserving bases to be unduly weakened in the face of any commercial pressures to reduce reserves.
- Review the suitability of current reserving techniques and methodologies. This review should examine any potential over-reliance on particular forms of data (such as case estimates over claim payments for example). It should also be informed by scenario analyses investigating the impact of alternative reasonable choices in parameters and methods.
- Understand how current pricing decisions could impact reserves.
- Communicate any increased down-side risks in reserving outcomes, and how these have been appropriately reflected in the reserve estimates.

What other risks can you foresee?

Any questions?

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